U.S. Data Review

- Retail sales: modest advance
- Industrial production: constrained by GM strike; sluggish elsewhere

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Retail Sales

The headline figure on retail sales was slightly better than expected (growth of 0.3 percent versus a consensus of 0.2 percent), but we viewed the report in total as tilting on the disappointing side. The auto component performed well (up 0.5 percent), a surprise given a drop in sales of new vehicles reported by manufacturers, and sales growth at gasoline service stations was firm at 1.1 percent. However, much of the advance at service stations was probably the result of higher prices rather than more driving. Other areas generally had soft tones, as shown by an increase of only 0.1 percent excluding autos and gasoline. In addition, results in the prior two months were adjusted downward. The revisions were small, in the neighborhood of 0.1 percentage point, but preliminary results for September already were soft, and now they are decidedly unimpressive (-0.1 percent ex autos and gasoline).

Retail Sales -- Monthly Percent Change

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Total	0.4	0.7	0.6	-0.3	0.3
Ex.-Autos	0.3	0.9	0.2	-0.1	0.2
Ex.-Autos, Ex.-Gas	0.6	0.8	0.4	-0.1	0.1
Retail Control*	0.6	0.8	0.2	0.0	0.2
Autos	0.7	0.1	2.0	-1.3	0.5
Gasoline	-2.5	1.7	-1.2	-0.1	1.1
Clothing	0.2	1.2	-1.2	0.3	-1.0
General Merchandise	-0.6	0.9	-0.2	-0.4	0.4
Nonstore**	2.1	1.4	1.4	0.2	0.9

** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*

*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*

Source: U.S. Census Bureau via Haver Analytics

The softness in the report was most apparent in a grouping of stores that deal primarily with discretionary purchases, where sales fell 0.2 percent. Three areas stood out on the soft side -- clothing, furniture, and sporting goods -- with declines ranging from 0.8 percent to 1.0 percent. Activity at restaurants and bars also contributed with a drop of 0.3 percent. Nonstore retailers (on line and catalogue) provided a partial offset with an increase of 0.9 percent, but that change represents the norm for this component. The soft tone also was apparent in the so-called retail control, a grouping that correlates well with spending as measured in the GDP accounts. This measure rose 0.2 percent, an underwhelming performance after a flat reading in the prior month.

Retail activity in the past two months has been slow. We suspect that the soft results represent a lull rather than a fundamental turn in consumer activity. Fundamentals are favorable for consumer spending (firm labor market and generally healthy financial positions). Thus we look for continued support.

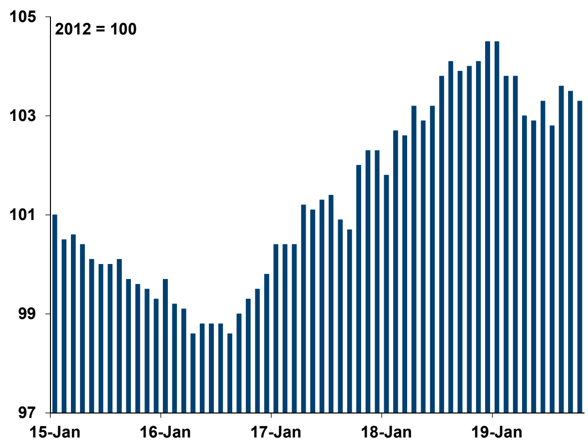
Industrial Production

A drop of 0.8 percent in industrial production in October was notably softer than the expected decline of 0.4 percent. The manufacturing component was close to expectations (off 0.6 percent versus a consensus estimate of -0.7 percent). The surprise occurred in the mining and utility components (off 0.7 percent and 2.6 percent, respectively). The decline in mining activity represented the second consecutive sizeable drop, but activity in August was up 2.6 percent, and thus the recent declines did not meaningfully alter the underlying trend, which has been essentially flat this year (chart, right). Changes in utility output are nearly always a function of weather and temperatures, and thus the drop can largely be ignored as economically important.

The decline of 0.6 percent in manufacturing was driven largely by the retreat of 7.1 percent in the auto industry, which was heavily influenced by the strike at General Motors. However, results elsewhere also were slow, as shown by a decline of 0.1 percent in manufacturing ex-autos (chart, left). The softness was broadly based, as 14 of 20 industry categories posted declines, the most with negative showings in the past year.

While the October report was weak, we do not see the situation in manufacturing as desperate. We would note that activity has stabilized, even improved, in recent months. Activity slowed early in the year and took a noticeable drop in April and May when cuts to the production of the 737 Max at Boeing took effect. Since then, activity has picked up slightly. Production is still below last year's results, but it has not deteriorated further in recent months.

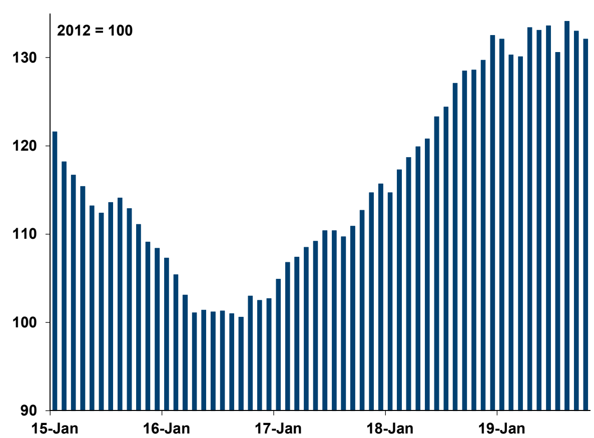
Industrial Production: Manufacturing Ex.-Autos*



** The index of industrial production for the manufacturing sector excluding motor vehicles and parts.*

Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics